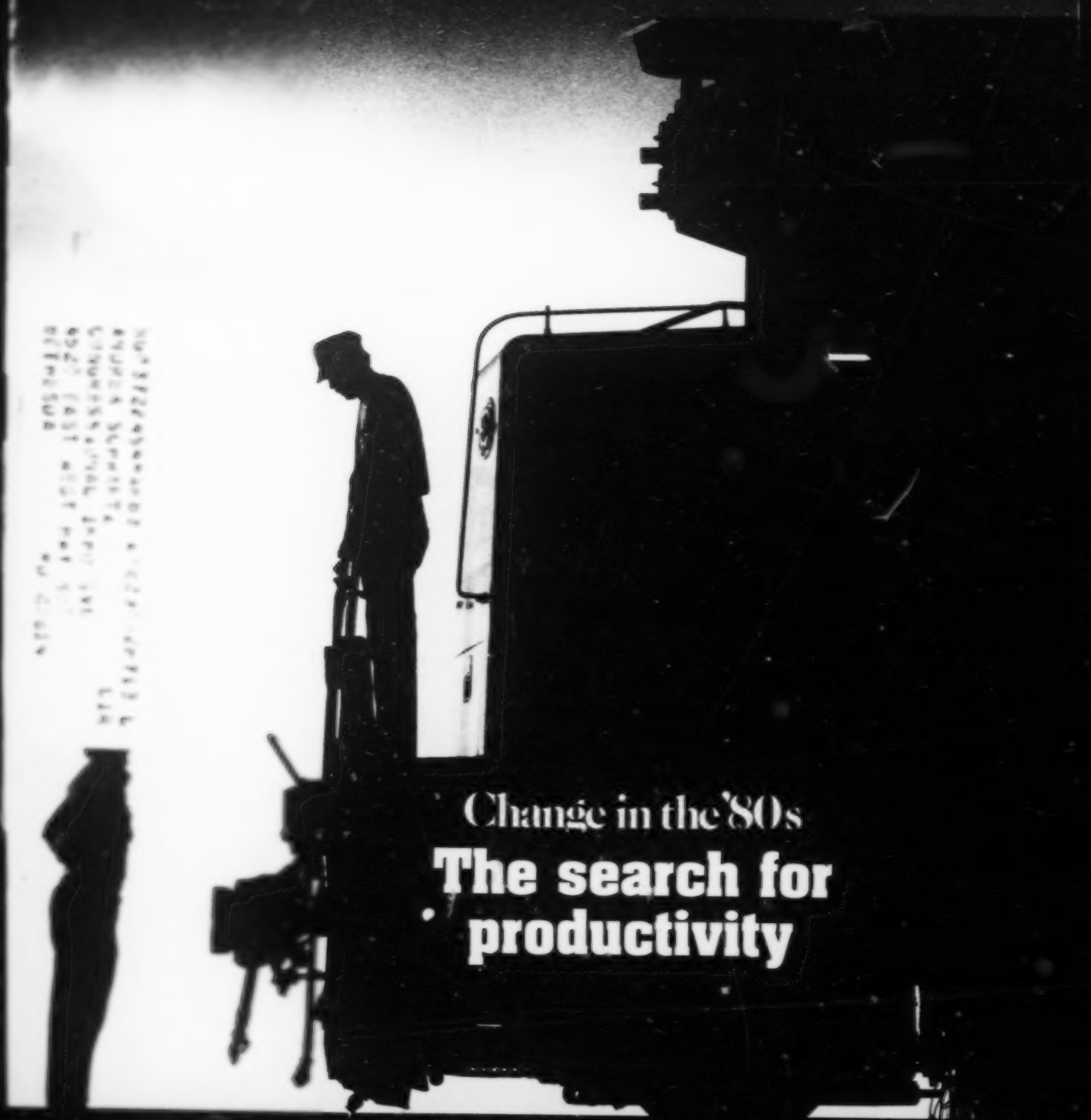
RAILWAY AGE

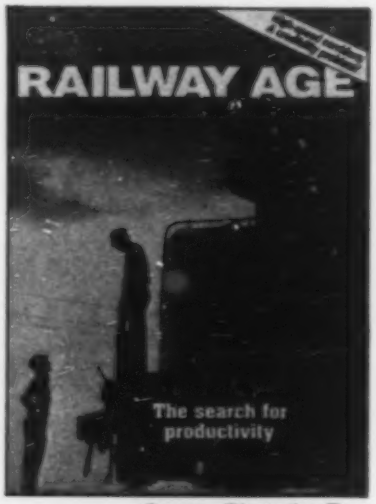
·gh-speed corridors:
A credibility problem?



Change in the '80s

The search for productivity

RAILWAY AGE
...for the new age of railways



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After large investments in track and rolling stock, reliability of Chicago's commuter rail service is at an all-time high. Organizational changes have helped, too.

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Inside

"Just in time"—or too late?

LUTHER S. MILLER

As receivers of freight move more and more to "just in time" delivery systems—to keep inventories low and assembly-line efficiency high—the railroads are in trouble unless they can compete more effectively with trucks. That was the message clearly and chillingly delivered by Richard Haupt, director of traffic and transportation for the Ford Motor Co. at a recent Detroit seminar sponsored by the National Industrial Transportation League.

"Trucks seem to fit in with JIT, as they are smaller conveyances than rail boxcars, operate direct from door to door generally in less time than trains, and are less subject to variations in transit time," said Haupt.

He did not, however, rule the railroads out of the JIT race.

"Railroads have made enormous progress over the past several years to improve delivery reliability and reduce transit time, and they deserve recognition for their effort," said Ford's traffic chief. "But to compete in the JIT environment, they have to do more, and they can—work rule changes that allow shorter trains to move directly from origin to destination avoiding classification yards and similar delays can result in significant improvement in delivery time and reliability and make the railroads more cost competitive.

"While I think it is inevitable that there will be some shift in favor of truck transportation, given the location of major supplier plants and industry assembly plants, I think there is room for railroads to compete effectively. It is up to them to realize their potential."

What this railroad customer was saying is what the railroads themselves have been saying with increasing nervousness as they have taken note of the great productivity strides that are being made by their motor-carrier competitors.

Will the labor organizations recognize this "just in time" to prevent further erosion of traffic—and jobs—to the highways? That is one of the questions raised by Senior Editor Gus Welty in this issue's cover story, "The search for productivity" (p. 31).

Ties: Still searching for concrete evidence

Statistically speaking, the concrete crosstie has made only a small dent in the U.S. railroad infrastructure: Out of nearly 20 million replacement ties installed last year, fewer than 170,000 were of the concrete variety; the remainder were the tried and proven timber ties that have been standard for a century and a half. But while the jury is still out insofar as evidence on the long-term economics of concrete vs wood is concerned, interest in concrete ties is running high in the U.S., and even higher in Canada and Mexico, for reasons that are explored by Associate Editor John Armstrong in the story that begins on p. 64.

Market Outlook

Equipment

Bethlehem Steel: Received orders for an additional 135 100-ton Coalporter gondola cars. More than 120 of the new cars are for the Grand River Dam Authority of Oklahoma; the others are "tack-on" orders for other companies. Bethlehem is working on a similar order for Grand River (*RA*, October, p. 12) which it expects to complete by mid-November, when work is scheduled to start on the new order.

CN Rail: Will spend more than $5 million to acquire 377 crew cab pickup trucks from General Motors of Canada Ltd., Ford Motor Co. Ltd. and Chrysler Canada Ltd. Capable of moving up to six employees and their equipment to the track for repair and inspection works, the trucks can also be adapted for use on rails.

- Has requested bids on the supply of 52 five-unit articulated intermodal flatcars estimated to cost more than $10 million (Canadian).

Conrail: Will acquire 100 enclosed bi-level auto racks at a cost of approximately $2.7 million. Installation of the racks on Trailer Train cars is to be completed Dec. 31.

Walt Disney Inc.: Awarded a $9.5-million contract to Messerschmitt-Boelkow-Blohm (MBB) of West Germany to upgrade Disneyland's four monorail trains.

Freight cars

	September 1984	September 1983	August 1984	Nine months 1984	Nine months 1983
DELIVERED					
Built new by carbuilders	1,465	458	1,300	9,080	3,474
Built new in RR shops	0	2	0	0	202
Built new—total	1,465	460	1,300	9,080	3,676
Rebuilt	0	0	0	0	100
TOTAL DELIVERED	**1,465**	**460**	**1,300**	**9,080**	**3,776**
ORDERED					
To be built new by carbuilders	775	416	785	12,356	4,164
To be built new in RR shops	0	0	0	250	2
To be built new—total	775	416	785	12,606	4,166
To be rebuilt	0	0	0	0	100
TOTAL ORDERED	**775**	**416**	**785**	**12,606**	**4,266**

	Oct. 1 1984	Oct. 1 1983	Sept. 1 1984	Average Backlog 1984	Average Backlog 1983
ON ORDER AND UNDELIVERED					
To be built new by carbuilders	5,366	3,756	6,056	6,289	4,126
To be built new in RR shops	250	0	250	111	31
To be built new—total	5,616	3,756	6,306	6,400	4,157
To be rebuilt	0	0	0	0	30
TOTAL ON ORDER	**5,616**	**3,756**	**6,306**	**6,400**	**4,187**

Source: Transportation Division, AAR, and the American Railway Car Institute

Locomotives (new and rebuilt)

DELIVERED	1984	1983	BACKLOG	1984	1983
September	22	37	October 1	207	158
August	59	22	September 1	225	157
Nine months	365	195	Average	170	120

Source: Transportation Div., AAR

Facilities

California Transportation Commission: Approved the following funding for rail projects in the San Francisco Bay Area: $17.59 million for Santa Clara County's Guadalupe Corridor light rail system; $5.144 million for Peninsula Commute Service station improvements; $10.7 million for Bay Area Rapid Transit improvements related to increasing capacity; and $2.8 million for the San Francisco Muni for rehabilitation and extensions of trolley overhead lines and for final engineering and construction of a streetcar line extension on Market Street.

Chessie System: Is spending $3.35 million to construct an automobile loading facility adjacent to the Walbridge Yard in Toledo, Ohio. The ramp, which will have the capability of handling over 1,000 vehicles at a time, is scheduled to be fully operational by Dec. 31.

CN Rail: Entered into a multi-million-dollar contract with Blast Cleaning Products, Ltd., of Oakville, Ont., for the engineering, supply and installation of a microprocessor-controlled blast cleaning facility at Transcona yards, Winnipeg, Man. The new facility will include robotic interior and exterior blast systems. Plans are under way for an automated painting facility to complement the blast cleaning system.

Metropolitan Atlanta Rapid Transit Authority: General Railway Signal is the apparent low bidder on a $14.7-million contract to supply switch machines, signals, train stops and train control equipment for a 7.7-mile extension of MARTA's North and South lines. Completion is scheduled for early 1988.

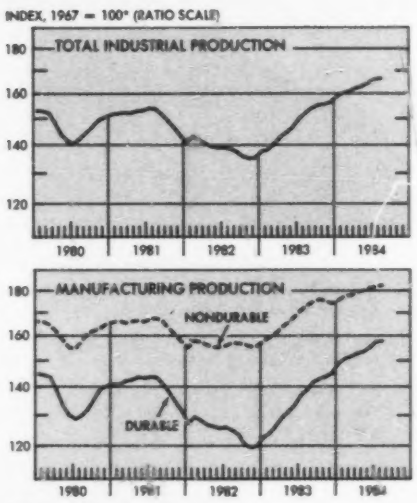
Market Indicators

Revenue freight carloadings

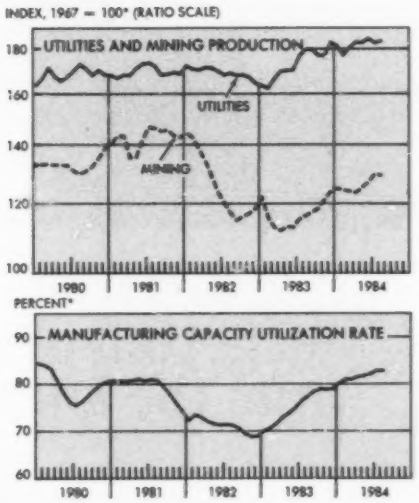
Commodity	Oct. 13 week	% change from 1983	Oct. 6 week	% change from 1983	Sept. 29 week	% change from 1983	Sept. 22 week	% change from 1983
Grain	23,984	(26.3)	27,087	(23.0)	27,740	(3.3)	30,333	1.7
Other farm products	4,375	(28.5)	3,731	(2.6)	3,224	(18.0)	3,506	(11.7)
Metallic ores	20,406	19.1	18,094	11.9	18,350	14.9	20,379	52.4
Coal	97,940	(10.8)	108,519	(0.9)	135,321	22.6	136,531	24.8
Crushed stone, gravel and sand	13,724	13.9	13,857	17.3	13,755	15.9	13,306	14.3
Nonmetallic minerals	11,473	(18.5)	12,253	7.2	11,551	(12.7)	12,502	(4.8)
Grain mill products	10,431	(13.1)	10,484	(11.9)	10,188	(21.1)	10,809	(14.6)
Food and kindred products	11,129	(9.1)	11,156	(8.4)	11,456	(11.6)	11,290	(10.2)
Primary forest products	12,936	(11.0	13,946	(4.5)	14,173	(7.8)	14,393	(0.6)
Lumber and wood products (except furniture)	7,051	(3.8)	7,060	0.9	7,848	0.8	7,492	2.2
Pulp, paper and allied products	14,544	1.5	15,088	(1.2)	15,610	(3.3)	14,991	(3.4)
Chemicals and allied products	24,461	0.3	24,349	(2.0)	24,908	(8.5)	25,955	5.0
Petroleum products	4,897	7.9	4,775	1.3	4,636	(2.2)	4,947	0.9
Stone, clay and glass products	11,422	(0.7)	11,744	(0.5)	11,646	(4.8)	12,139	2.6
Coke	5,346	12.7	5,047	3.1	5,242	0.1	4,681	(12.8)
Metals and products	7,969	(9.5)	8,459	3.7	9,453	(2.8)	8,288	(3.5)
Motor vehicles and equipment	20,257	4.4	20,233	2.5	19,489	(0.3)	17,478	(7.9)
Waste and scrap material	9,214	(0.3)	8,908	0.2	9,533	1.5	9,672	7.3
Forwarder and shipper assn. traffic	7,932	(8.9)	7,867	(12.9)	7,562	(19.4)	7,250	(17.6)
All other carloads	61,267	8.7	63,759	8.2	63,627	6.0	61,824	6.8
LCL traffic	179	(45.1)	197	(36.7)	210	(37.7)	170	(50.3)
Total Cars Loaded	**388,937**	**(4.8)**	**396,615**	**(0.9)**	**425,522**	**4.5**	**427,936**	**8.5**

Estimated revenue ton-miles (billions)	1984	1983	% change from 1983
41 weeks	737.1	648.8	13.6

Industrial production and capacity utilization



*SEASONALLY ADJUSTED
SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM



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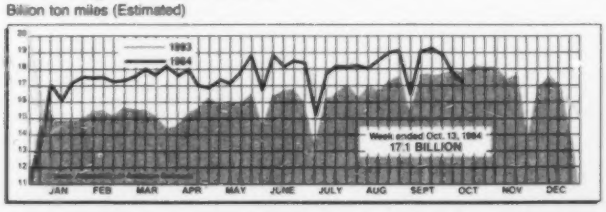
Piggyback loadings

Week ended	Cars loaded 1984	% increase from 1983	Trailers/ containers 1984	% increase from 1983
September 15	55,589	11.4	93,137	5.9
September 22	55,351	8.7	93,614	4.9
September 29	57,324	9.8	98,624	6.8
October 6	58,305	14.8	96,572	7.9
Cumulative total, 40 weeks	2,045,357	15.1	3,518,124	14.2

Rail freight traffic trends

Billion ton miles (Estimated)



Rate of return reaches 5.5% as earnings soar

With their high fixed costs, railroads can carry a considerable amount of additional traffic without a corresponding increase in expenses. That is what happened in this year's first half. On the strength of a 16% increase in revenue ton-miles, operating revenues rose by more than $2 billion; but expenses increased by less than $1 billion. As a result, the railroads in this year's first six months posted net railway operating income of $1.332 billion, which brought the rate of return for the 12 months ended June 30 to 5.5%. This compared with an NROI of $773 million for the first half of 1983. Ordinary (net) income for the first half of '84 was $1.402 billion, up from $657 million a year earlier. (Ordinary income is calculated after income from non-railroad operations is added and interest on debt and other fixed charges are deducted.)

The first-half figures that were announced by the Association of American Railroads early in October are based on depreciation accounting, a change mandated by the Interstate Commerce Commission during 1983. Under depreciation accounting, certain track expenditures formerly charged to operating expenses are now charged as capital outlays.

In releasing the first-half report, Dr. Harvey A. Levine, the AAR's vice president of economics and finance, cautioned that the accounting change makes year-to-year comparisons on some financial data misleading. "Although we are able to compare net railway operating income and ordinary income, the accounting change makes it impossible to compare net revenue from operations and rate of return on net investment," he said.

Dr. Levine said most of the increase in both ordinary and operating income resulted from "the end of the recession."

Class I railroads in the United States

For the Second Quarter

	1984 (millions)	1983 (millions)
Operating Revenues	$7,545.1	$6,507.8
Operating Expenses	6,471.3	6,146.7
Net Revenue from Operations		
United States	1,073.8	366.1
Eastern District	382.8	95.9
Southern District	230.6	80.4
Western District	460.3	184.8
Ordinary Income		
United States	809.4	495.0*
Eastern District	338.7	205.0*
Southern District	152.3	108.0*
Western District	318.4	182.0*

For the First Six Months

Operating Revenues	$14,996.0	$12,683.5
Operating Expenses	13,090.5	12,152.4
Net Revenue from Operations		
United States	$1,905.4	$731.1
Eastern District	577.0	118.1
Southern District	456.7	202.7
Western District	871.8	410.3
Rate of Return on Net Investment[1]	5.5%	Not Comparable
Ordinary Income		
United States	1,402.0	657.0*
Eastern District	510.2	212.0*
Southern District	294.6	171.0*
Western District	597.2	274.0*

[1]Rate of return for 12 months ended June 30 (preliminary)
Due to a change in accounting methods, figures for operating expenses, net revenue from operations and rate of return on net investment are not comparable between 1984 and 1983.
*Restated under depreciation accounting.
Source: AAR

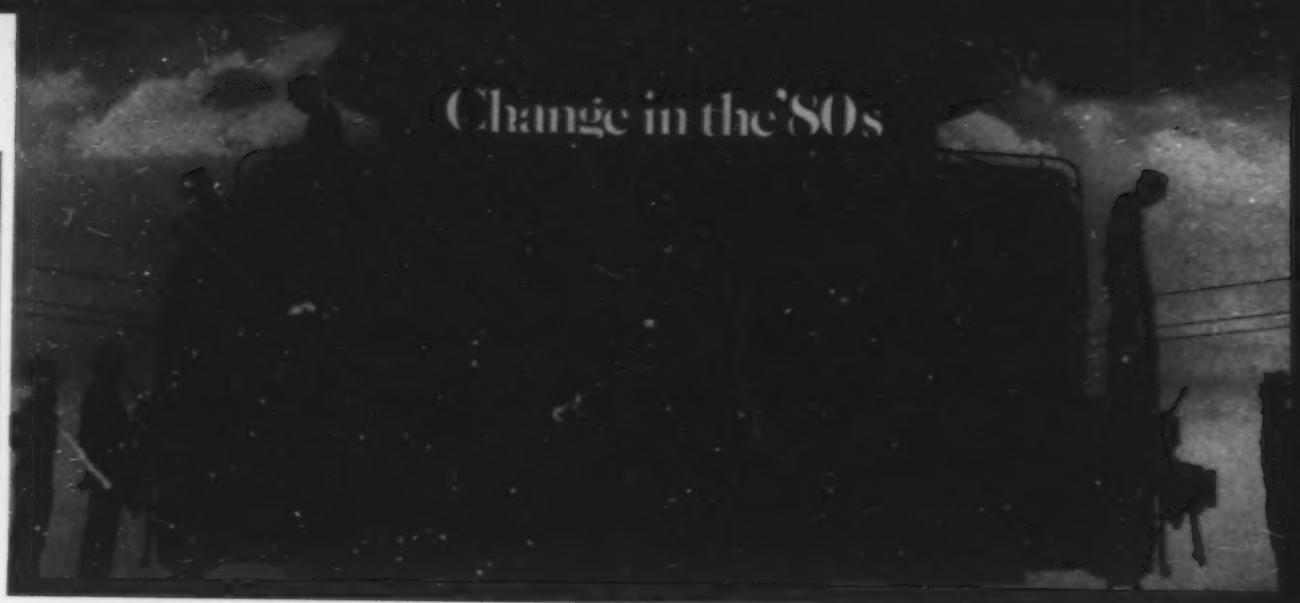
Rio Grande: The bidding begins

Denver & Rio Grande Western has long been a fascinating railroad, well-managed and profitable despite the handicaps imposed by its rugged Rocky Mountain route and by its substantial dependence upon interline connections and bridge traffic. Industry observers have long wondered who would wind up with D&RGW, in the reshaping of western railroading.

But as the western map was being redrawn, Rio Grande stayed as it was.

Today, it is the only "independent" of any size west of the mid-continent area. It has grown, with its extension to the Missouri River. But it was bypassed in the western merger movement, as nobody seemed quite able to figure out what Rio Grande could provide that couldn't be provided some other way.

So, analysts should not have been surprised when the first bid for Rio Grande came not from a railroad but from an outsider, Anschutz Corp., a closely-held, Denver-based energy company. The price: $50 per share, or $496.5 million. Anschutz began a tender offer Oct. 1, under an initial Oct. 29 expiration date, with the tender of 51% of Rio Grande Industries' shares required for successful completion of the offer.



Roy Blanchard

The search for productivity

Without a more productive labor force, railroads are doomed to play a diminishing role on the transportation scene.

By GUS WELTY, Senior Editor

Profit is not a measure of productivity.

Profit is a measure of the gap between what a business takes in and what it costs to run that business. Profit does not measure the competitiveness of a business, and it certainly does not measure the ability of that business to grow, especially when growth depends heavily upon the ability to increase market share.

By the standards of past years, railroad profits in 1984 have been huge. Rail labor unions like the numbers, because they're in negotiation. Some shippers like the numbers, because they see profit-improvement as another arrow to shoot at deregulation. And some in rail management seem almost embarrassed by the profit-numbers they're reporting.

All of the above are thinking wrong thoughts.

The 1984 profits are a reflection of two things. The main factor is the economic recovery itself. The other factor is the modest improvement in productivity which railroads have been able to make, and the leverage that results from an industry's having its equipment and plant in A-1 shape.

But economic recoveries inevitably lead to economic recessions. And the battle for productivity improvement is one that has to be fought on all fronts, continuously, because railroads are dealing in a fragile market with revenues and profits that are extremely fragile and with transportation competitors who are intent upon improving their own productivity.

Productivity improvement means improvement in the use of physical assets, equipment and plant. It also means improvement in the use of people.

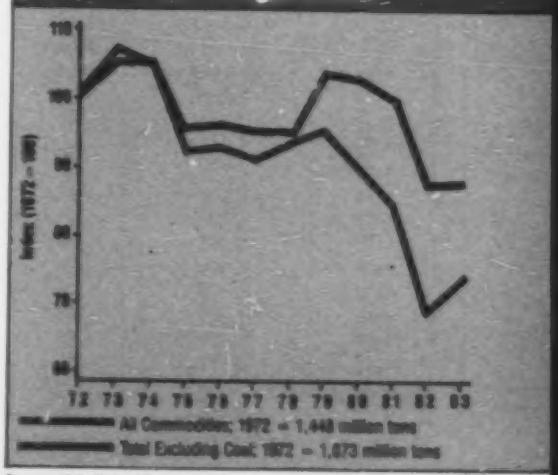
With the help of the railway supply industry, railroads have been able to do great things on the physical-asset side. In just the past 10 years, there have been tremendous advances in everything from locomotive reliability and fuel efficiency, to track renewal techniques, to the development of more sophisticated communications and signal gear, to the introduction of more cost-effective freight cars and components, to the adaptation of computers for more and more railroad applications, and on and on and on.

Technology, the improvement in asset-utilization, has been particularly important in the transportation of coal and of highway trailers and containers, the railroads' two highest-volume commodities.

It does not stretch a point to say that technology has gone a long way toward saving the industry, helping it mightily during bad times and making it look even better during good times.

Productivity improvement through technology will continue. The challenge, now, is productivity improvement on the people side.

Decline of railroad freight traffic



Source: ICC, *Freight Commodity Statistics*, Class I Railroads.

Change

Decline in railroad market share

Relative Distribution of Revenues: Intercity Freight Carriers

Year	Railroads	Trucks	Oil Pipelines	Others
1972	37.5%	51.8%	3.7%	6.9%
1973	36.8	52.2	3.6	7.4
1974	38.0	50.9	3.6	7.5
1975	37.8	50.2	4.3	7.7
1976	36.9	51.8	4.3	7.0
1977	34.6	53.1	4.8	7.5
1978	32.0	53.9	7.2	6.9
1979	31.8	53.7	7.3	7.2
1980	33.2	52.0	7.7	7.1
1981	33.2	51.9	7.4	7.5
1982	31.8	52.6	8.3	7.3

Source: *Transportation Facts and Trends*, Transportation Association of America, and *Transportation in America*, Transportation Policy Association.

That's where the going gets tough.

By the quick and easy measures, people-productivity has improved by quite a bit. Rail freight traffic is up, and many measures of operating performance are up, while employment is down. The conclusion, some argue, is obvious: People-productivity has gone up tremendously.

The conclusion may be "obvious," but it also is off the mark.

Railroad productivity improvements have been due primarily to capital investment, the substitution of capital for labor in an industry that has been both capital- and labor-intensive.

In almost every year for the past two decades, railroad capital expenditures have exceeded retained capital. For six years in a row, 1975-80, investment exceeded retained funds by more than $1 billion, and in 1978 the gap was more than $2 billion.

Those are the kinds of numbers that make financial analysts nervous. But if railroads were to stay in business and try, somehow, to stake out a claim on the future, the investments were a gamble that had to be taken. The replacement of labor by capital was really the only choice the railroads could have made, in view of rail labor's siege-mentality response in just about every negotiating session that involved change.

Nobody who was around then can forget how long it took to get a final agreement on the phasing-out of the locomotive fireman in freight and yard service, years after the diesel-electric locomotive replaced the steam locomotive. Nobody now around, probably, will be able to forget how long it will take to phase-out the caboose, even now that end-of-train and wayside detection and monitoring devices can do, probably better, the jobs that once required a human presence at the rear of a train.

And, of course, nobody can ever not note that the railroads, almost alone among basic industries, have to deal with more than a dozen individual unions, each jealous of its position and none willing to take a first step toward change except under the duress of public and governmental pressure.

With few exceptions, rail labor has never regarded itself as anything but an antagonist in its relationship to rail management. And that historic antagonism is what may hurt both sides the most, as the industry continues its must-do search for more ways to improve productivity in competition with other transportation modes that, increasingly, are either non-union or benefitting from union concessions.

Here, you cannot ignore barge competition. Barges have lower labor costs. Barges eat into rail movement of export grain and coal, and there is even a container-barge operation working the Chicago/Gulf Coast market.

But it's in the rail-vs-highway market where railroads are going head-to-head with the competition on a day-to-day basis. And it's in this market where the battle for future prosperity, and maybe even for survival, will be fought.

Railroads do not go into that fight with a lot of reasons for optimism.

In the 50 years between 1925 and 1975, for example, the railroad share of the intercity freight market dropped from 80% to less than 37%, which is about where it is today. What's more important than that decline, however, is the fact that the rail share of intercity freight revenues has gone down from 31.6% in 1960 to 17.9% last year, while the motor carriers' revenue share was going up from 62.9% to 72.5%. The rail share of revenues, in fact, has fallen by almost three percentage points, 20.8% to 17.9%, since 1981, after the partial deregulation brought about by the Staggers Act. Or, to look at it another way, total U.S. freight tonnage has increased by 41.5% over the past 23 years, but railroad tonnage climbed by only 5.8%, and since

Decline in "real" (constant dollar) railroad freight revenue per ton-mile

Year	Freight Revenue Per Ton-Mile in Current Dollars (cents)	Railroad Inflation	Freight Revenue Per Ton-Mile in Constant Dollars (cents)	Index
1972	1.618¢	100.0	1.618¢	100
1973	1.617	112.3	1.440	89
1974	1.853	128.3	1.444	89
1975	2.041	146.0	1.398	86
1976	2.191	161.7	1.355	84
1977	2.286	175.4	1.303	81
1978	2.358	190.3	1.239	77
1979	2.599	214.2	1.213	75
1980	2.852	245.7	1.161	72
1981	3.178	276.6	1.149	71
1982	3.212	295.2	1.088	67
1983	3.125	307.8	1.015	63

Source: Annual Reports of Class I Railroads (R-1); "Series QMPW" from 1972 to 1977 and the "Railroad Cost Recovery Index" from 1977 to 1982 (both series are constructed by the Association of American Railroads)

1970 railroads have been able to bring home less than 10% of the net growth in intercity freight revenues.

What went wrong? One thing that went wrong was the government's promotion of an interstate highway system that in many cases duplicated railroad routes and did not provide for anything resembling adequate user charges for the trucks that went blazing across the new highways. Another factor was the 1980 motor carrier act that deregulated most trucking activity and almost eliminated entry restrictions. Today, there are about 100,000 owner-operators out there trying to get what is mostly rail-competitive freight. And the number of certificated motor carriers has gone up by about 74%. Non-union companies have come into the business, unionized companies have gone the "double-breasted" route by setting up non-union subsidiaries, and the Teamsters have made concessions in bargaining with unionized truckers.

In the meantime, over the past 10 years, increases in railroad labor compensation have been 53% greater than increases in that part of the motor-carrier industry that is unionized.

Something like 70% of rail freight revenues are susceptible to diversion to truck. But railroad pricing people have been blitzed: Labor costs have gone up far more than productivity has gone up, and so there have been upward pressures on rail freight rates because no railroad is currently revenue-adequate by Interstate Commerce Commission standards and so cost increases simply cannot be absorbed without revenue increases.

But what happens when a railroad raises rates? The business goes somewhere else. Case in point: One railroad, known for fast and reliable piggyback service, tried to improve its thin margins by making a modest rate increase. What happened? TOFC/COFC traffic in its territory continued to grow, but its volume remained flat, while the growth went to other railroads and/or back to the highways. That railroad has, at least, the consolation that its intermodal business is making a somewhat improved contribution. But long-term growth has not been enhanced, not as it could be if productivity improvements could be obtained.

Productivity improvements? For that, you could read employment-opportunity enhancement.

In 1947, railroads had 1.3 million employees on the payroll. In 1980, the number was 500,000. The most recent figure is 330,000. Employment in the trucking industry has gone up by about 40% in the past 25 years, but railroads have been forced to substitute productivity improvements from capital for productivity improvements from people.

Why? Look at some of the numbers.

—For railroad employees, average annual compensation is greater than the compensation of 97% of the rest of the U.S. work force.

—In the 1972-1983 period, the Consumer Price Index rose by 137%, while railroad labor compensation went up by 204%.

—Last year, the average annual compensation, including fringe benefits, for a railroad employee was $40,972. That was 53% more than employees in the motor-carrier industry received.

—Just since 1980, average annual railroad-employee compensation has gone up by more than $10,000. Average annual compensation in the trucking business increased by less than half that much.

—Between March 1981 and April of this year, rail wages rode a 26.7% updraft. The increase during the same period for the motor carriers was 7.9%.

Total factor railroad productivity
(Index: 1972 = 100)

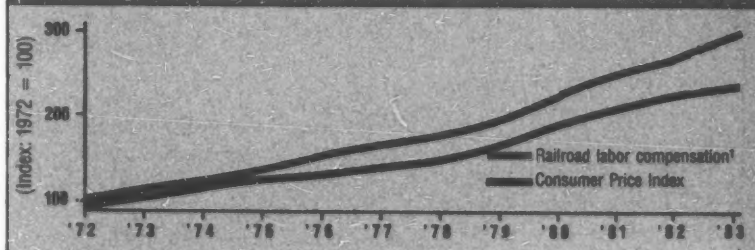
Year	Total Factor Productivity	Annual Percent Change
1972	100.0	—
1973	103.6	+3.6%
1974	105.8	+2.1
1975	98.8	−6.6
1976	104.5	+5.8
1977	104.7	+0.2
1978	109.2	+4.3
1979	106.0	−3.0
1980	109.0	+2.8
1981	110.8	+1.7
1982	114.3	+3.2
ANNUAL AVERAGE CHANGE		+1.4%

Source: *Multiple Input Productivity Indexes*, American Productivity Center.

Are shippers complaining about rail freight-rate increases? Some of them are. But 75% of the increases taken in rates since late 1980 have been due to increases in employee compensation which were locked in by negotiated agreements.

And it is not just employee-compensation costs that are crippling what might otherwise be a successful attempt by an old-line industry to bootstrap its way into the 20th Century and toward the 21st.

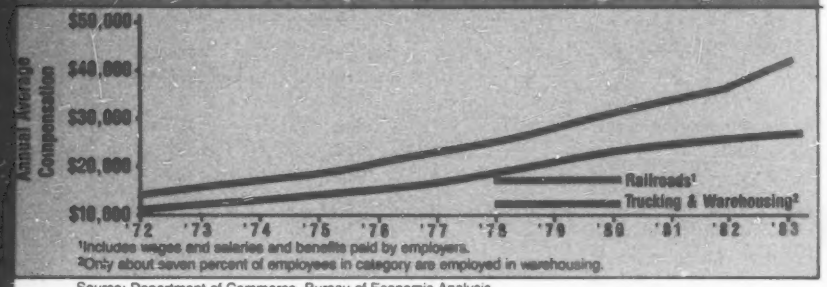
Railroad labor compensation vs. national inflation



Source: Railroad labor compensation from AAR Railroad Cost Recovery Index;
CPI from Department of Labor, Bureau of Labor Statistics, and;
IPD from Department of Commerce, Bureau of Economic Analysis.

Change

Railroad labor compensation vs. trucking industry



¹Includes wages and salaries and benefits paid by employers.
²Only about seven percent of employees in category are employed in warehousing.

Source: Department of Commerce, Bureau of Economic Analysis.

There are the arbitraries, the road-yard restrictions, the division-of-work limits, and the hoary 100-mile "basic day" which came into being when a train, with some good luck, might average 12.5 mph over eight hours for a 100-mile day. But every attempt that rail management has made to update its labor agreements, especially with the operating crafts, has hit a stone wall.

The crafts have been willing, in a modest way, to "experiment" with changes in crew consist and in other work rules, in cases where everybody involved was protected and where "new" business was involved.

Labor's willingness to participate should be praised. But "new" business is not the only stake that management or labor has to push onto the table. There is, of course, existing business, that can so easily be lost when somebody else gets more efficient and can offer a lower rate. There is also the lost opportunity even to go out and get new business: With partial deregulation, railroads can make contracts and they can make rates quickly, but if the price has to involve a labor-saving, then the opportunity may be lost because of the time it sometimes takes to convince rail labor's leaders that opportunity matters.

Cost of borrowing money

Year	Prime Interest Rate	Index
1972	5.25%	100
1973	8.02	153
1974	10.80	206
1975	7.86	150
1976	6.84	130
1977	6.82	130
1978	9.06	173
1979	12.67	241
1980	15.27	291
1981	18.87	359
1982	14.86	283
1983	10.79	206

Source: Data Resources, Inc., *U.S. Long-Term Review*, Winter 1983-84, and Council of Economic Advisors, *Economic Indicators*, June 1984.

Where does a solution lie? Unfortunately, there is no apparent solution, as matters stand.

Today, rail labor has a perceived advantage. It negotiated the current agreements during times when railroad fortunes were decent. It is negotiating today when railroad fortunes are perceived as being far better. Rail labor holds the ace. And, with more than a dozen unions involved and with intra-union and inter-union controversies unresolved, the outlook is not good.

Railroad negotiators can talk about the need for improved productivity, about the need for reduced unit costs of service, about the need for reliability and flexibility in service, about the need for buisness growth and improvement in market share until their faces turn blue.

The fact remains that while rail labor unions have been willing to make those "experimental" changes, they show no inclination whatsoever to make the kinds of basic changes that would strengthen the railroad industry, make it more competitive, and thus preserve and protect and maybe even increase job opportunities.

Railroads can talk a lot about the inherent advantages of the steel wheel on the steel rail, and about how much more fuel-efficient railroads are, and about what railroads can do to gain business and increase market-share under deregulation if just they had the chance.

What railroads mean is that they can't have this chance if they don't have a cost-break as regards their competition because, face it, if a customer wants absolute flexibility in service he's going to go truck.

There are, at last report from the ICC, about 330,000 railroad employees, which is far fewer active employees than there are retirees.

And railroads will continue to make heavy capital investments to improve productivity. They have no other choice, if they're going to stay in the railroad business, and those capital expenditures will inevitably result in further declines in railroad employment.

There are 330,000 railroad employees now? By one estimate, with the technology now available, fully applied, about 100,000 employees could do the job, and handle reasonable growth.

One labor leader, outside the railroad industry, has been quoted as saying that the only real job security lies in having a job.

And so, in a real way, it's rail labor's choice.

The real problem is that a nation depends upon railroads. Real productivity in manufacturing, real productivity in distribution, real productivity in the generation of electricity, real productivity in a lot of areas depends upon railroads.

Railroads have gotten a lot of their improved productivity out of capital, not a whole lot out of labor.

Tomorrow, it's going to take two, capital and labor. Working, for a change, together.

Will it work? If it doesn't, nothing else will. ■